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Alberta ECONOMIC OUTLOOK

JUNE 1973

ALBERTA-NATIONAL AFFAIRS

The Canadian economy continues to show growing strength. The latest figures from the National Income and Expenditure Accounts for the first quarter of 1973, projected on an annual basis, indicate that real GNP has increased by nearly 12 per cent. Economists now feel that a real growth rate in GNP of at least 7 per cent is quite probable in 1973.

It appears that Canadian consumers have not been discouraged by increasing prices. Statistics Canada reports department store sales in February were up 16 per cent over February, 1972. During the first quarter of 1973, Canadian merchandise trade exports increased by 24 per cent over the same period in 1972.

Another general indication of the strength of the Canadian economy was indicated in a recent statement by Ivan Roome, Chief Trader, Canadian Imperial Bank of Commerce. He suggests that the value of the dollar could appreciate by as much as 2.5 per cent in relation to the U.S. dollar during the next year. An appreciation of this amount, however, is not expected to adversely affect our world trading position, according to Mr. Roome.

In spite of the optimism expressed for the Canadian economy, attention is now focusing on the duration of the current economic recovery. The Conference Board indicates that there are signs of bottlenecks accompanying this rapid economic growth. Unfilled orders in manufacturing, for example, have increased by 18 per cent during March and April, and average hours worked per week in manufacturing increased to 40.4 hours in February, the highest level since early 1969. Several areas of particular concern are the international monetary situation, the persistence of inflation both nationally and internationally and the recent economic and political developments in the United States. All these factors are tempering elements in the current period of economic expansion.

The Bank of Canada increased the bank rate to 6¼ percent on June 10, 1973, the third successive increase in the last two months. This represents continued efforts by the Bank of Canada to stabilize the growth of the economy and keep inflation under control. This move was necessary due to a significant increase in bank credit to date in 1973, coupled with a strong performance of the Canadian economy and similar developments in other countries.

ALBERTA – PROVINCIAL AFFAIRS

The cost per square foot of residential construction in Edmonton rose at average annual rates of 4.3 per cent between 1968 and 1971. In 1972, per square foot construction costs of $16.11 in Edmonton were higher than Montreal or Toronto, both at $14.83, but lower than Vancouver at $16.94, and Ottawa at $18.79. The average new home in Edmonton cost $27,414 during 1972 compared with $24,898 in Calgary, $32,035 in Toronto, $30,474 in Vancouver, and $19,032 in Regina. Higher labour and material costs and further mortgage rate increases are anticipated in 1973. The strong and growing economy should allow the additional costs to be more easily passed on to the consumer.

Housing prices will rise not only because of construction costs but also due to the continuation in the relatively strong demand for housing throughout Canada in 1973. The Canadian Real Estate Association states the average prices of houses sold in Canada through the Multiple Listing System (M.L.S.) increased by 9 per cent during the first quarter of this year. This exceptional rate of increase is expected to continue at least to the end of 1973 and well into 1974, resulting in abnormally high housing prices throughout Canada during this period. The most recent discussions on the problem of inflation have centred around the ever-increasing food prices. However, housing costs have probably contributed equally, if not more so in recent years, to the overall problem.

CANADA – INTERNATIONAL AFFAIRS

American economic analysts are somewhat concerned by the current trends developing in the U.S. economy. In 1972, the U.S. economy performed better than it had at any time in the previous ten year period. A continuation of this performance was expected for 1973 and well into 1974. Some economists now feel that the outstanding performance of the first quarter of 1973 cannot be maintained continually and some slackening in the rate of growth may result sooner than previously expected. On an annual basis Gross National Product increased by over 15 per cent,

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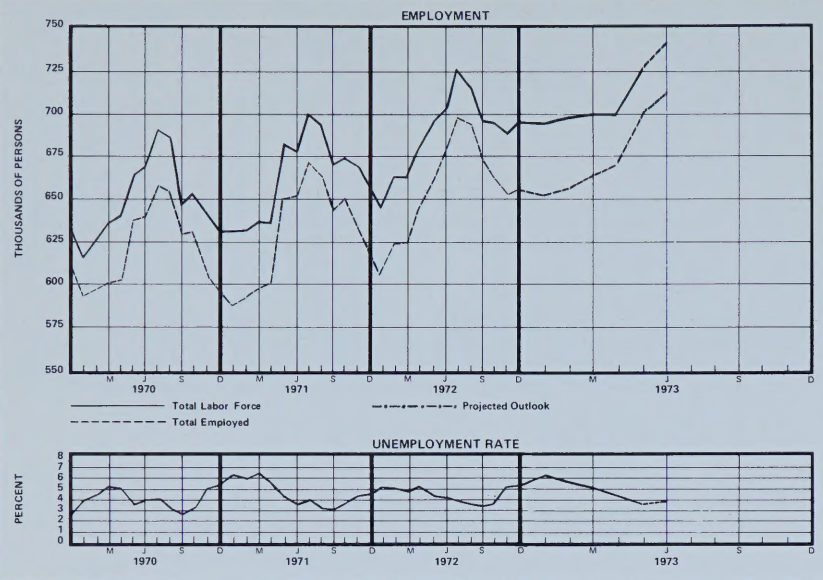
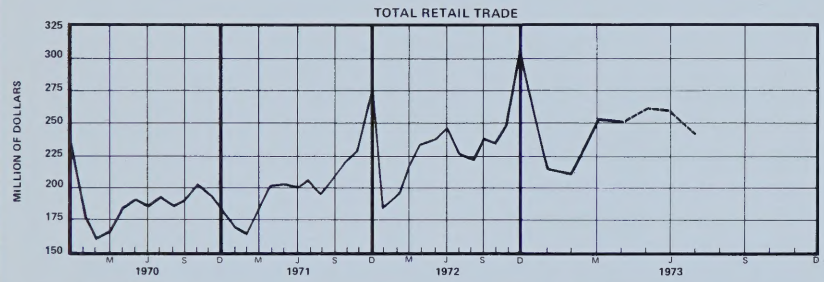


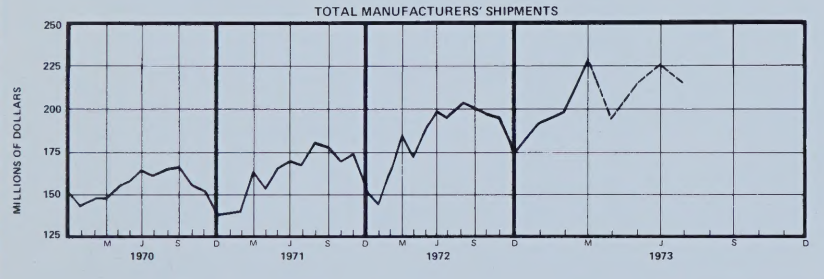
EMPLOYMENT

Due to a large increase in the 14 to 26 age group, May's labour force rose to 729,000 and total employed reached 702,000, resulting in 27,000 unemployed, or an unemployment rate of 3.7 per cent. Prospects for June indicate further increases in the same age group, resulting in a labour force of 741,000, total employed of 712,000 and 29,000 unemployed. Further seasonal gains are expected in July when the labour force and total employed are at their seasonal highs.



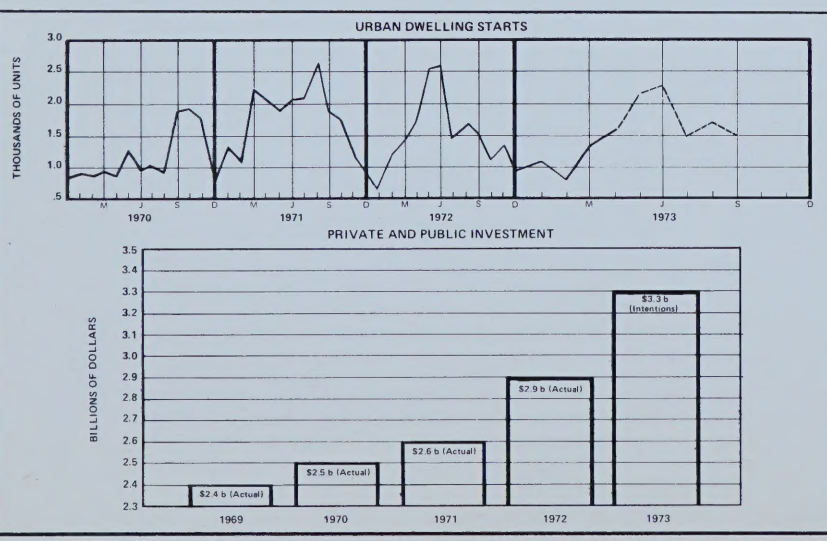
RETAIL TRADE

March's preliminary total of $253 million was 17 per cent above the same month in 1972 due to considerable increases in motor vehicle and department store sales. To the end of March total trade increased by close to 15 per cent over 1972 to near $680 million. Previously published totals for April through June still appear valid, with July's total expected to decline slightly to $245 million.



MANUFACTURERS' SHIPMENTS

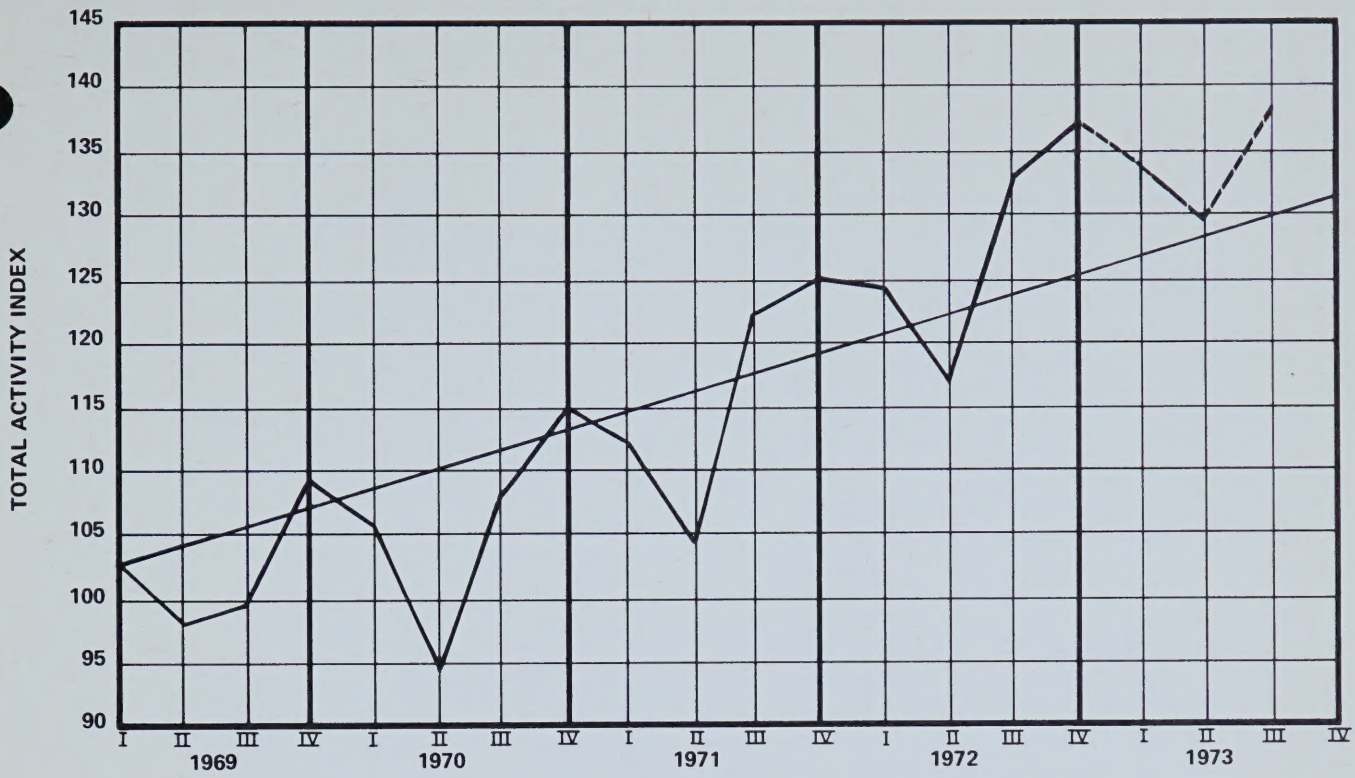
Total manufacturers' shipments to the end of March totalled $619 million, an increase of nearly 24 per cent over the first quarter of 1972. March's total was close to $229 million, nearly 25 per cent above March, 1972. July's total is expected to reach over $225 million, with the April to June totals expected to be close to $195 million, $214 million and $225 million, respectively.



HOUSING

Total urban dwelling starts to the end of April, 1973, totalled 4,808, a decrease of 5 per cent from the same period in 1972. April's total of 1,605 starts was nearly 5 per cent below April, 1972. The third quarter forecast of 4,700 urban dwelling starts is expected following a total of 6,000 starts in the second quarter of 1973. Continued high costs of new housing in Alberta are expected to the end of 1973, with some observers expecting mortgage rates to climb to 10 per cent. This could become a reality, especially if continued pressure is placed on lenders by the Bank of Canada and serviced land is in short supply. Mortgage rates are expected to be close to 9¾ per cent before September, 1973.

ALBERTA'S ACTIVITY INDEX



PERTINENT ECONOMIC INDICATORS FOR THE PROVINCE OF ALBERTA

INDICATOR	Percentage Change in Volume Activity Total Year 1971 - 1970	Total Year 1972 - 1971	Year to Date 1973 - 1972
MANUFACTURING			
Slaughtered Meat Production	+13.6	+ 3.3	- .3 (Jan. – April)
Slaughtered Meat Exported	+12.6	+ 5.3	+ .3 (Jan. – April)
Refinery Production	+10.7	+21.4	+ 5.1 (Jan. – April)
Cement Production	+ 4.5	+ 3.5	+22.0 (Jan. – April)
MINING			
Oil Production	+ 9.4	+20.8	+22.2 (Jan. – March)
Gas Production	+10.1	+16.8	+10.8 (Jan. – March)
Footage Drilled	+ 1.8	+21.9	+32.6 (Jan. – March)
Number of Wells Drilled	+ 9.6	+13.1	+66.0 (Jan. – March)
Coal Production	+31.7	+14.1	- .9 (Jan. – March)
CONSTRUCTION			
Urban Dwelling Starts	+54.0	- 15.4	- 5.2 (Jan. – April)
Rigid Insulation Board Shipments to Alberta	+15.6	+ 5.9	+18.5 (Jan. – April)
Metal Shapes Shipments (Est'd)	- 4.0	+ 7.6	+26.0 (Jan. – April)
AGRICULTURE			
Grain Shipments	+ 8.8	- 2.9	- 7.2 (Jan. – April)
Livestock Marketed	+15.1	- 1.6	- 5.2 (Jan. – April)
Farm Cash Receipts (Est'd)	+ 9.8	+14.0	+25.0 (Jan. – April)
FORESTRY			
Lumber Production	+ 6.1	+16.0	+30.3 (Jan. – March)
Lumber Sales	+34.7	+ 5.7	+17.7 (Jan. – March)
Lumber Exports	+26.5	+24.7	+ 8.7 (Jan. – March)
Pulpwood Production	- 34.9	+47.8	+69.5 (Jan. – March)

UNEMPLOYMENT RATE (Unadjusted)	MAY 1973	APRIL 1973	MAY 1972	APRIL 1972
Canada	5.3	6.3	6.2	6.8
Alberta	3.7	4.3	4.2	5.2

and close to 9 per cent in real terms; prices have increased by nearly 7 per cent; corporate profits rose by 26 per cent; consumer expenditure quadrupled; and during April, the U.S. recorded its first trade surplus in the last 18 months.

The Argus Weekly Staff Report indicates that this rate of performance cannot be sustained within the industrial capacity, labour supply and productivity available in the U.S. It is expected, therefore, that the current growth rate in real G.N.P. will decline to roughly 4½ per cent by the fourth quarter of 1973 and to between 4 and 4½ per cent in 1974. Although representing a slight decline from current levels, these rates of growth are not indicative of a recession. Rather, this growth should stabilize the economy and allow it to grow at the highest rate that is consistent with desirable expansion of the labour force and productivity.

On June 13, 1973, President Nixon announced a **60 day freeze on all retail prices** in the United States. This move was designed to **stabilize the growth** in the U.S. economy and to **halt the rapid growth in prices** which have increased at an annual rate of over 9 per cent since January. President Nixon is also seeking the authority to impose **export controls** on those products, especially food, whose prices would increase due to abnormally strong international demand anticipated because of shortages developing throughout the world.

This announcement effectively ends Phase III of his **economic stability program**. It is expected that after the 60 day period, more permanent controls will be imposed similar to those administered under Phase II of the program.

Since the Canadian economy is presently facing the same pressures as the U.S., the question is whether similar policies will be necessary in Canada. If the U.S. economy becomes stabilized at a lower growth rate, this will tend to lower the Canadian growth rate as well. Therefore, further fiscal and monetary policies to restrain the Canadian economy may not be necessary.

Pressure on prices throughout Canada, however, could become more pronounced if U.S. export controls are imposed. Those countries who previously purchased from the U.S. will look elsewhere, mainly to Canada. The result will be an increasing world demand for Canadian goods adding further pressure on domestic prices and supplies in Canada.

In terms of the overall impact of President Nixon's program on Canada, the imposition of export controls would have the greatest effect. Although our international trading position will benefit considerably, it could place unduly high pressure on Canadian prices, resulting in a higher rate of inflation than initially predicted. Canadian export controls may have to be considered in some cases where domestic supplies are scarce. Furthermore, the continuing question of price control, especially in regards to food prices, will warrant more careful consideration.

In a recent report by the Canadian Income Tax Committee of the Tax Executive Institute, an analysis of the impact of the United States Domestic International Sales Corporation (DISC) program on Canadian industry was presented. It was estimated that the U.S. federal tax rate for DISC's is close to 36 per cent. This compares to the current Canadian federal tax rate including adjustment for provincial tax rates of nearly 49 per cent. This results in a net adverse tax effect on Canadian firms of about 13 percentage points.

According to the report, those sectors of Canadian industry which could be most adversely affected would include machinery, electrical equipment, fabricated metal products, stone clay and glass products, instruments and related products and chemicals. Although the latest proposal for a reduced corporate tax rate for Canadian manufacturing firms will not entirely eliminate this differential, the report concludes it would go a long way in closing the gap by reducing the combined federal and provincial tax rate on manufactured and processed goods to about 40 per cent.

BUSINESS OUTLOOK

According to most reports, the outlook for the Canadian economy in 1973 remains one of strong economic expansion. This expansion is predicated on the strength of both consumer spending and business investment. For example, in the May – June issue of Richardson Securities of Canada's **Investment Review 1973**, the following points are highlighted:

- Fiscal policy will remain expansionary throughout 1973 with government spending increasing by about 12 per cent;
- Consumer spending should grow by at least 10 per cent;
- Residential construction should show a modest growth rate of 7 to 8 per cent (most of which will be price increases);
- Business fixed capital formation should increase by 10 to 12 per cent in 1973;
- Both export and imports should increase in the order of 14 – 15 per cent, leaving a modest improvement in our foreign trade account;
- G.N.P. should grow at a rate of 10½ to 11 per cent, with real growth accounting for about 6 per cent and growth due to price increases of approximately 5 per cent;
- Both short and long-term interest rates are expected to rise slightly. However, with unemployment receiving a high level of political priority, no general tightening of the money supply is expected; and
- The Canadian dollar should remain close to par with the U.S. dollar.

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